AKITA

ANNUAL REPORT

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ANNUAL MEETING:

The Annual General Meeting of Shareholders will be held at 11:00 a.m. M.D.T. on: Thursday, May 15, 1997 at the Calgary Convention Centre, 120 - 9 Ave. S.E., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

AKITA Drilling Ltd. is a premium oil and gas well drilling contractor with operations throughout Western Canada. In addition to conventional drilling services, the Company is active in directional, horizontal and underbalanced drilling and provides specialized drilling services to a broad range of independent and multi-national oil and gas companies. By the end of the second quarter in 1997, AKITA will employ over 600 people operating 28 drilling rigs in all depth ranges.

1996 ACHIEVEMENTS

AKITA achieved record profits in 1996 as a result of higher rig utilization and improved margins.

AKITA's consistently strong cash flow has helped reinforce the Company's commitment to maintain its equipment in superior operating condition.

AKITA has a goal to maintain a very strong balance sheet. Shareholders equity has doubled in the last three years.

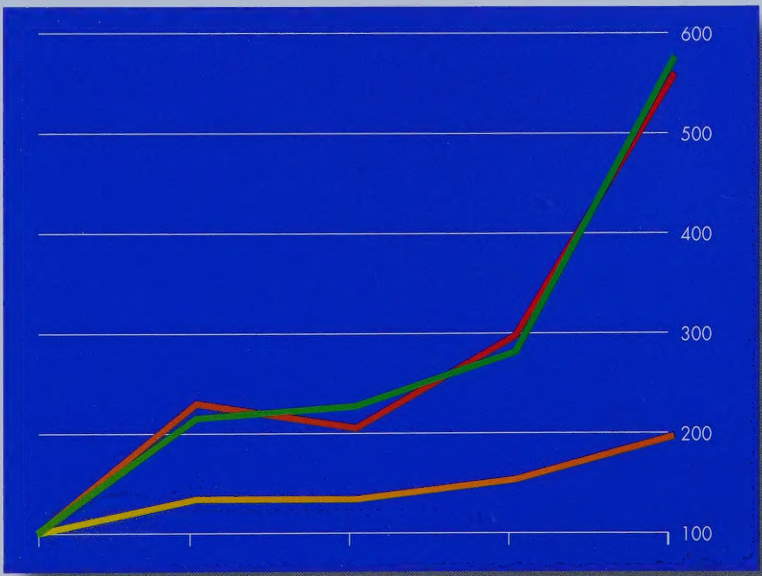
AKITA has consistently outperformed the industry with respect to safety. For the third time in four years, AKITA's lost time accident frequency was less than one half of the industry average.

SHARE PERFORMANCE

		1996	1995	1994	1993
Weighted average number of Class A and Class B shares		**9,231,205**	9,120,005	9,097,005	8,088,100
Market prices for Class A Shares	High	**$ 11.00**	$ 4.70	$ 5.25	$ 5.88
	Low	**$ 4.60**	$ 2.30	$ 3.15	$ 0.90
	Close	**$ 9.50**	$ 4.70	$ 3.80	$ 3.60
Volume		**9,833,974**	5,044,479	2,431,706	9,278,545
Market prices for Class B Shares	High	**$ 9.80**	$ 4.85	$ 5.25	$ 6.00
	Low	**$ 5.00**	$ 2.60	$ 3.40	$ 1.55
	Close	**$ 9.00**	$ 4.85	$ 3.55	$ 3.75
Volume		**39,746**	69,585	89,888	303,170

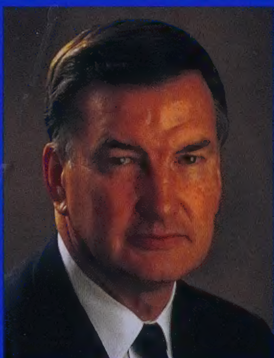
FOUR-YEAR TOTAL RETURN ON $100 INVESTMENT

The graph to the right compares the cumulative return over the last four years on the Class A Non-Voting shares and Class B Common shares of the Company (assuming a $100 investment was made on January 31, 1993 at the weighted average trading price for the month of January) with the cumulative total return of the TSE 300 Stock Index over the same period, assuming reinvestment of dividends.



	31 Jan 1993	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996
Akita Cl.A	100.0	215.57	227.55	281.44	576.74
Akita Cl.B	100.0	230.06	205.52	297.54	560.16
TSE 300	100.0	134.21	133.97	153.44	196.93

LETTER TO THE SHAREHOLDERS



Ronald D. Southern
Chairman of the Board

Earnings for the year ended December 31, 1996 were $7,113,000 or $0.77 per share on revenue of $63,340,000. Comparative figures for 1995 were $6,053,000 or $0.66 per share on revenue of $57,429,000. Cash flow from operations for the current year was $9,713,000 or $1.05 per share as compared to $8,475,000 or $0.93 per share in 1995. AKITA's financial position continued to improve throughout 1996 with the cash balance exceeding $21,000,000 at year end.

AKITA's emphasis on quality service and equipment continues to contribute directly to its success. Since inception, AKITA has consistently achieved utilization rates in excess of industry averages. During 1996, AKITA's utilization of 62.9% exceeded the 58.7% utilization average of the industry. The balanced approach of producers to oil and gas well drilling resulted in a significant contribution from all depth categories of rigs.

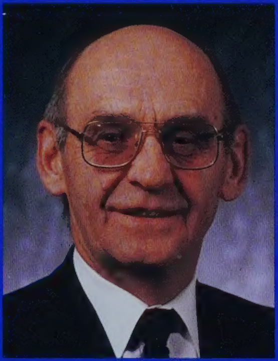
Dayrates reflected the increased demand for drilling services during 1996. Early in the year, AKITA's dayrates were lower than in the comparable period in 1995. However, increased demand for rigs due to higher commodity prices resulted in 1996 year end dayrates that were 9% higher than at the previous year end.

As a result of increased prices for both oil and natural gas, demand for drilling services is the strongest it has been in over a decade. In light of the current buoyant market conditions, AKITA is investing a portion of its resources in the construction of two additional shallow capacity rigs in 1997. Both of these rigs are under long term contracts with major independent oil and gas producers.

AKITA has a strong commitment to safety, which has resulted in one of the lowest accident frequencies in the industry. AKITA's 1996 lost time accident frequency of 0.8 accidents per 200,000 man hours worked was significantly better than the industry average of 2.36 (Preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors).

RECORD EARNINGS AND CASH FLOW HIGHLIGHTED AKITA DRILLING LTD.'S ACHIEVEMENTS FOR 1996.

AKITA's 1996 performance represented a 47% improvement from 1995 and was the fourth consecutive year that AKITA's lost time accident frequency was less than the industry.



John B. Hlavka
President

During 1996, two double rigs underwent major upgrades. Continuous renewal of the fleet is a key strategy to ensure the long term quality and viability of all of AKITA's rigs. Since its inception, AKITA has performed significant upgrades to approximately one third of the fleet, with smaller improvements on other rigs as warranted.

During the fourth quarter of 1996, AKITA took delivery of its first portable electric top drive. This prototype unit, which is under a long term contract on AKITA's largest rig, will provide a cost effective enhancement to drilling efficiency. AKITA is monitoring opportunities to economically add further top drive units to its rig fleet.

In February 1997, the AKITA Board of Directors doubled the semi-annual dividend to $0.10 per Class A and Class B share, a reflection of the Board's confidence in AKITA's performance as well as its outlook.

We would like to compliment the employees of AKITA for their commitment to making 1996 a year of outstanding achievement in all aspects of AKITA's operations. In addition, we thank our customers, suppliers and shareholders for their support. Finally, a very special thanks to our Directors for their wise counsel and assistance in helping us reach our objectives.

On behalf of the Board of Directors

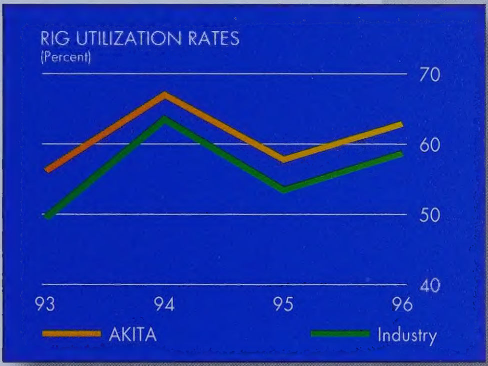
Ronald D. Southern
Chairman of the Board

John B. Hlavka
President

REVIEW OF OPERATIONS

AS IN PREVIOUS YEARS, AKITA'S RIG UTILIZATION EXCEEDED INDUSTRY AVERAGES DURING 1996.

AKITA drilled 1,078 wells for a total of 989,000 metres or approximately 8.5% of the total wells drilled in Western Canada during 1996.



AKITA's business strategy continues to be driven by a commitment to enhancing shareholder value through the provision of the highest quality drilling services to its customers.

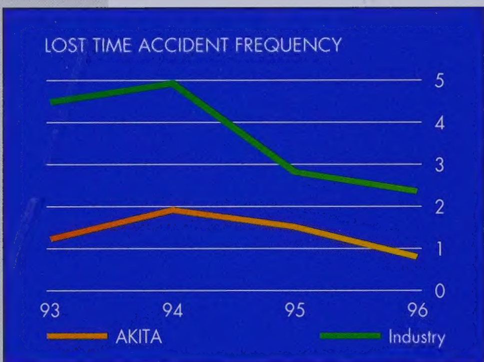
AKITA operates a well maintained, diversified and efficient fleet of 26 drilling rigs. The following table compares the range of drilling capabilities for AKITA's fleet to that of the industry:

DRILLING DEPTH CAPABILITY

Depth Capacity (up to)	950 Metres	1850 Metres	2450 Metres	3050 Metres	3700 Metres	6700+ Metres
AKITA (rigs)	8	3	4	5	0	6
AKITA (percentage)	30%	12%	16%	19%	0%	23%
Industry (rigs)	17	106	159	96	53	52
Industry (percentage)	3%	22%	33%	20%	11%	11%

Although AKITA participates in all major market segments, the emphasis on both shallow and deep capacity equipment provides particularly favourable opportunities for both shallow gas drilling, which is typical of Southern Alberta and Saskatchewan, and deep gas drilling which occurs in the foothills of Alberta and British Columbia. Since 1993, seven rigs have undergone modifications to enhance their horizontal capabilities. AKITA currently has 18 rigs capable of drilling horizontally.

AKITA HAS A COMMITMENT TO IMPROVING WORK SITE SAFETY AND ELIMINATING PREVENTABLE ACCIDENTS.



In order to meet AKITA's continuing goal of operating the highest quality fleet in the industry, major upgrades are performed annually. During 1996, one of AKITA's "doubles" was modified to more efficiently work medium depth pad type projects. A second medium capacity rig was replaced by a more modern and cost effective rig best suited to drilling relatively shallow oil and gas wells typical of the plains regions. Both of these upgrades add to the long term potential for AKITA. During 1996, AKITA spent $3,761,000 on capital projects plus a further $2,150,000 on major maintenance.

AKITA has a commitment to improving work site safety and eliminating preventable accidents. All employees are expected to conduct their duties in a manner that will allow AKITA to achieve this objective. By the end of 1996, 20% of all field employees reached the milestone of at least 1,000 accident free days.

In order to achieve excellence in safety and loss control, AKITA established a comprehensive program which includes detailed policies, procedure manuals, classroom and on the job training, as well as regular safety meetings and random drug and alcohol tests.

As a result of these ongoing programs, AKITA's lost time accident rate in 1996 was the lowest in its history and significantly less than industry average.

AKITA is committed to ensuring that its daily operations do not have a negative impact on the environment. AKITA constantly monitors and audits it operations and has developed policies and procedures to effectively reduce or eliminate damage to the environment.

Commodity prices for oil and natural gas continue to be positive factors in AKITA's performance. In management's view, the commodity price outlook for the future is also favourable due to anticipated demand for oil and natural gas which will, in turn, contribute to strong activity levels in the Western Canadian drilling industry.

Crews on Rig #47 have achieved an average of 542 accident free days.

A FAMILY TRADITION

Charlie Visser,
"The Big Dutchman", a drilling pioneer.

AKITA Drilling Ltd. is proud of its historic bond with the Canadian Oil and Gas Industry, an iron-strong link that was forged by the legendary energies of one man almost three-quarters of a century ago.

The famed Leduc discovery of '47 was still 23 years away when Charlie Visser took his first job with Imperial Oil. Not yet in his twenties, it is unlikely Charlie or anyone else really foresaw a discovery so significant that it would forever change the economic fortunes of an entire province.

It is also unlikely that Charlie Visser could have predicted that one day two of his granddaughters, together with his daughter, would be respected, competent members on the Board of one of the industry's leading drilling companies.

"He would have been so very, very proud," said Marg Southern… a director of AKITA and the daughter of Charlie Visser.

They called Charlie "The Big Dutchman"… a wildcatter as adventuresome and tough as the business he loved. People remembered him for his size and strength, but those who knew him best also talked about his kindness and the ever-present twinkle in his eye."

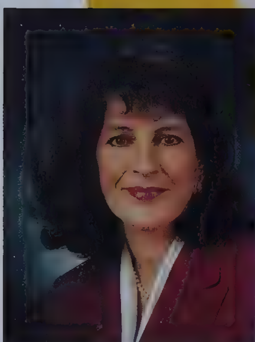
"He didn't get much of a formal education, but he would read everything he could lay his hands on," Marg recalled of her father. "Engineers and geologists alike were amazed at the knowledge he acquired, and he was also blessed with an intuition about the production end of the industry."

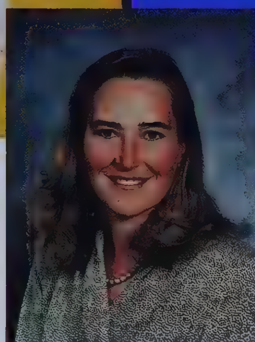
Granddaughters Nancy Southern and Linda Heathcott have assumed active and important roles on AKITA's Board and Committees and both bring a genuine long-term commitment to the Company and its people. Both also have fond memories of their Grandfather Visser and credit him with valuable lessons from which they continue to learn.

"He taught me to take the time to appreciate things of hidden value," said Nancy. "A job well done, a garden in bloom or a day without conflict. He had this wonderful ability to appreciate things that others might totally overlook."

"I will always value his kindness and the time he found to be with us, even when his health was failing," added Linda. "He taught me to respect the land and the soil, and my love for gardening and the outdoors is something I trace directly to him."

In 1934 Charlie worked for independent drilling contractors and in an interview with the Imperial Oil Review almost half a century ago he recalled how tough those times really were. "We got half our wages paid in cash when the job started. If the well was successful we got the other half when oil was produced.





AKITA Directors: Marg Southern, Nancy Southern, Linda Heathcott.

If it was a dry hole there was no other half."

Imperial promoted him to toolpusher in 1938, made him drilling superintendent in Saskatchewan in early 1942 and Western Drilling Superintendent in 1946. When World War II broke out and his native Holland fell under attack, Charlie slipped away one day to a Calgary recruiting office to join the Air Force. He was far too valuable to lose from the oil fields and his superiors finally convinced him he could do more for the war effort finding oil in Saskatchewan then at the controls of an airplane over Europe.

Charlie figured prominently in the 1948 battle to overcome the infamous Atlantic Oil Company's wild well in Leduc. He was temporarily assigned by Imperial to the Alberta Government to assist in taming the well.

"I was at university in Edmonton at the time and I remember getting to see him briefly one night during the fire," said Marg. "He told me they had tried pumping everything from feathers to golf balls down the hole to kill the blaze, but eventually it was directional drilling… something unheard of at the time… that helped to get it out."

She also remembers he had not slept much for weeks, and he paid for that stress soon after with a massive heart attack. He was only 48. Off work for several months, Charlie returned at full throttle but another serious attack forced him into an unwelcome retirement at age 52.

Friends and crew said at the time they would always remember the sight of "the boss" and his 220 pound frame ambling across the field toward their rigs. Marg Southern will also remember the softness of the heart tucked within.

Charles Visser, a fighter all his life, defied all odds and lived into his 75th year.

Today, on the 50th anniversary of the Leduc discovery, the family of "The Big Dutchman" - Marg, Nancy and Linda, carry on his traditions in striving to make AKITA the premier company in the industry.

This year marks the 50th anniversary of the Leduc discovery which was a milestone in Alberta's history.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with AKITA's audited financial statements and related notes contained in this annual report.

FLEET AND UTILIZATION

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 1996, AKITA was able to achieve utilization of 62.9% which was 5.1 percentage points higher than the previous year and 4.2 percentage points higher than the 1996 industry average. No single market segment dominated 1996 drilling activity, with shallow and deep gas, and conventional and heavy oil wells all figuring prominently in the year's final figures for both total wells and total meterage drilled.

The following table highlights AKITA's 1996 utilization rates for all depth capacities compared to 1995 and to industry average.

UTILIZATION

Depth Capacity		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	AKITA Average	Industry Average
to 950 metres	**1996**	**72.3**	**36.3**	**63.5**	**74.9**	**61.8**	**51.9**
	1995	74.8	22.7	46.7	53.8	49.4	51.6
951 to 1850 metres	**1996**	**63.2**	**47.3**	**75.5**	**71.0**	**64.8**	**51.4**
	1995	73.5	51.9	74.3	70.5	67.6	56.1
1851 to 2450 metres	**1996**	**80.8**	**29.5**	**61.5**	**68.9**	**60.2**	**60.7**
	1995	76.3	24.5	65.0	41.0	51.7	52.3
2451 to 3050 metres	**1996**	**81.7**	**43.4**	**72.9**	**72.5**	**67.7**	**56.4**
	1995	69.7	47.7	56.4	56.8	57.6	50.7
over 3050 metres	**1996**	**64.0**	**63.0**	**57.0**	**59.8**	**60.9**	**45.0**
	1995	78.3	43.0	77.5	74.9	68.5	53.9
Total	**1996**	**72.5**	**44.1**	**64.9**	**69.6**	**62.9**	**58.7**
	1995	74.7	35.9	61.7	59.2	57.8	53.4

The drilling industry is seasonal with activity building in the fall and peaking during the winter months. The peak Canadian drilling season ends with "spring breakup", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land. Agricultural land becomes accessible again late in the third quarter as crops are harvested. Northern transportation routes become available shortly thereafter as areas with muskeg conditions freeze to allow the movement of rigs and other heavy equipment.

Horizontal drilling continues to be a distinct market segment for the contract drilling industry. This form of drilling in comparison to conventional drilling practices exposes more of the oil and gas bearing geological formation to the well bore, and is particularly effective for heavy oil reservoirs, thin production zones and thicker zones with marginal permeability. AKITA owns specialized equipment, including hevi-wate drill pipe, 800 horsepower mud pumps and specialized mud cleaning equipment to enhance its capabilities for horizontal drilling.

REVENUE AND EXPENSES

Revenue increased to $63,340,000 or $10,494 per operating day during 1996 from $57,429,000 or $10,464 per operating day during 1995, as a result of higher utilization. Operating and maintenance costs vary directly with revenue and amounted to $44,472,000 or $7,368 per operating day during 1995 compared with $40,856,000 or $7,445 per operating day for the prior year.

Contribution levels are typically higher during the first and fourth quarters of any given year as additional revenue generating equipment is utilized at rig sites to facilitate drilling in colder weather and at more remote locations. When calculated on a per operating day basis, 1996 contribution rates exceeded 1995 levels in each of the last three quarters of the year. The accompanying table highlights contribution levels by quarter for the last two fiscal years:

CONTRIBUTION LEVELS

(Thousands)

Quarters		1st	2nd	3rd	4th	Total
1996	**Revenue**	**$19,224**	**$10,546**	**$14,329**	**$19,241**	**$63,340**
	Operating and Maintenance Expense	**13,129**	**7,856**	**10,054**	**13,433**	**44,472**
	Contribution	**6,095**	**2,690**	**4,275**	**5,808**	**18,868**
1995	Contribution	6,869	1,845	3,398	4,461	16,573

AKITA depreciates its rigs using the unit of production method. Depreciation increased to $2,547,000 during 1996 from $2,206,000 during 1995, because of an increase in the overall cost base of the rig fleet resulting from ongoing major upgrades. Assets other than rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation.

Selling and administrative expenses increased to $5,153,000 in 1996, representing 8.1% of total revenue, from $4,381,000 or 7.6% of total revenue in 1995. The single largest component was salaries and benefits, which accounted for 64% of these expenses during both 1995 and 1996.

Other income increased to $1,673,000 in 1996 from $1,214,000 in 1995. Larger cash balances in 1996 resulted in increased interest income. In addition, dividend income from Western Rock Bit Company Limited and gains on disposals of redundant assets were higher in 1996 than during the previous year.

Income tax expense increased to $5,728,000 from $5,147,000 due to higher pretax earnings. The average effective income tax rate decreased to 45% in 1996 from 46% in 1995 as a result of higher dividend income in 1996. Canadian income tax rules treat dividends differently from other forms of income earned by a corporation and consequently, no income tax expense is recorded on their receipt.

NET EARNINGS AND CASH FLOW

Net earnings increased to $7,113,000 or $0.77 per Class A Non-Voting and Class B Common share for 1996 from $6,053,000 or $0.66 per share in 1995. Cash flow from operations increased to $9,713,000 or $1.05 per share in 1996 from $8,475,000 or $0.93 per share in 1995. The 1996 results represent record earnings and cash flow for AKITA, attributable largely to increased drilling activity and somewhat higher dayrates as compared to 1995.

LIQUIDITY AND CAPITAL RESOURCES

As a result of AKITA's strong financial position, capital expenditures were funded entirely out of internally generated cash flow for both 1996 and 1995. At December 31, 1996, AKITA had $26,844,000 in working capital including $21,392,000 in cash, compared to $20,932,000 and $17,049,000, respectively, for the previous year.

In addition to cash reserves, AKITA has a $5,000,000 bank operating line of credit at prime interest rates secured by accounts receivable. The total amount of financing available varies with receivable balances. This line was not being used at December 31, 1996. As a result of current and anticipated cash flows from operations, AKITA expects to retain a positive net cash position throughout 1997. AKITA has no long term debt.

DIVIDENDS

During 1996, AKITA declared and paid its first dividends totalling $0.10 per share ($920,000) to Class A Non-Voting and Class B Common shareholders. The payment of any dividends is at the discretion of the Board of Directors and depends upon a number of factors, including AKITA's financial results, liquidity, any extraordinary condition as well as the business outlook.

CAPITAL ASSETS

Net fixed asset additions were $3,760,000 for 1996 compared with $3,655,000 for the previous year. AKITA maintained its commitment to achieving the highest operational standards in the industry with the expenditure of $1,661,000 for upgrading and modifying Rig #15 and Rig #32. Additional rig equipment and tubulars accounted for $1,826,000 of expenditures. The balance of capital expenditures related to the purchase of vehicles and other equipment.

BUSINESS RISKS AND RISK MANAGEMENT

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers, which in turn, are directly affected by a variety of factors, including world oil and North American natural gas prices, and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle. During 1996 and continuing into 1997, approximately one half of the rigs in AKITA's fleet have been committed under long term contracts requiring payment whether or not these rigs are active.

The success of AKITA also depends on other factors, including competition and operational and environmental risks.

AKITA manages its risks in these areas by:

- employing well-trained, experienced and responsible employees
- improving the skills of its employees through training programs
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program
- constantly upgrading the rig fleet to ensure it is modern and efficient
- maintaining comprehensive insurance policies with respect to its operations
- ensuring all employees comply with clearly defined safety standards
- reducing environmental risk through the implementation of industry leading standards, policies and procedures

AKITA is subject to federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from drilling operations. In Alberta, environmental compliance is generally governed by the Alberta Environmental Protection and Enhancement Act.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of deleterious materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as its own well developed and closely monitored internal procedures through a program of regular environmental audits. Nevertheless, some risk of unintentional breaches of environmental protection laws and potential liability is occasionally inherent in particular operations of AKITA, as with other companies engaged in similar businesses.

AKITA does not expect that environmental protection laws and regulations will affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts which it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks, in the absence of negligence. As a matter of policy, AKITA ensures blowout insurance has been obtained by its customers and thereby reduces its related risk.

FUTURE OUTLOOK

The drilling industry is cyclical and certain key factors which have an impact on AKITA's results are beyond management's control. AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers.

The varied depth capacities of AKITA's rigs provide favourable exposure to all segments of the oil and gas drilling market. Prospects for continued horizontal drilling, particularly using underbalanced technologies, remain positive as producers continually seek the best available techniques to enhance production and profitability. AKITA's past investment in horizontal equipment and its experience in single and multi-leg horizontal wells, and underbalanced and overbalanced applications, will help to ensure that AKITA maintains an important presence in this market segment.

During 1996, the drilling industry experienced its fourth consecutive year of above average activity levels compared to industry averages over the past decade. AKITA anticipates continued high activity levels during 1997 which will once again contribute to strong financial performance for the Company. The current industry forecast prepared by the Canadian Association of Oilwell Drilling Contractors projects over 14,000 wells to be drilled in 1997, compared to 12,695 wells in 1996. In response to these high activity levels, AKITA is constructing two additional rigs. Each rig will work under a three year contract commencing during the second quarter of 1997.

Commodity prices for both oil and natural gas have been relatively strong throughout most of 1996 and into 1997. In management's view, current commodity prices are high enough to ensure strong drilling demand for the balance of 1997.

Rig #15, a 2000 metre capacity rig, was commissioned on October 4, 1996.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to the organization contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, estimates of transactions and operations that were incomplete at year end have been made by management. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining systems of internal control. These systems are designed to provide assurance that assets are safeguarded from loss or unauthorized use, that transactions are properly recorded and that the financial records are reliable for preparing the financial statements.

Price Waterhouse, the Company's independent auditors, have conducted an examination of the financial statements, which included an evaluation of internal controls to the extent they considered necessary, and have had full access to the Audit Committee. Their report appears on page 19.

The Board of Directors, through its Audit Committee comprised of three non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

J. Hlavka.

John B. Hlavka
President

Murray Roth.

Murray J. Roth
Secretary-Treasurer

AUDITORS' REPORT

To the Shareholders of AKITA Drilling Ltd.

We have audited the balance sheets of AKITA Drilling Ltd. as at December 31, 1996 and 1995 and the statements of earnings and retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Calgary, Alberta

BALANCE SHEETS

(Dollars in thousands)

December 31		1996	1995
Assets			
Current assets			
Cash		**$ 21,392**	$ 17,049
Accounts receivable		**15,844**	12,535
Other		**462**	537
		37,698	30,121
Investments	Note 1	**364**	364
Capital assets	Note 2	**15,541**	14,125
		$ 53,603	$ 44,610
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 10,416**	$ 8,370
Income taxes payable		**438**	819
		10,854	9,189
Deferred income taxes		**2,289**	2,033
Class A and Class B Shareholders' Equity			
Share capital	Note 3	**18,814**	18,098
Retained earnings		**21,646**	15,290
		40,460	33,388
		$ 53,603	$ 44,610

Approved by the Board

Dale Richardson

Director

C. Perry Spitznagel

Director

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(Dollars in thousands, except per share)

Year ended December 31		1996	1995
Revenue		$ 63,340	$ 57,429
Costs and expenses			
Operating and maintenance		44,472	40,856
Depreciation		2,547	2,206
Selling and administrative		5,153	4,381
		52,172	47,443
		11,168	9,986
Other income	Note 4	1,673	1,214
Earnings before income taxes		12,841	11,200
Income taxes	Note 5		
Current		5,472	4,887
Deferred		256	260
		5,728	5,147
Net earnings		7,113	6,053
Retained earnings, beginning of year		15,290	9,491
Dividends		(920)	-
Refundable dividend tax		163	(84)
Cancellation of stock options		-	(170)
Retained earnings, end of year		$ 21,646	$ 15,290
Earnings per Class A and Class B share			
Basic		$ 0.77	$ 0.66
Fully diluted		$ 0.73	$ 0.63

STATEMENTS OF CHANGES IN CASH POSITION

(Dollars in thousands, except per share)

Year ended December 31	1996	1995
Operating activities		
Net earnings	$ 7,113	$ 6,053
Non-cash items included in earnings		
Depreciation	2,547	2,206
Deferred income taxes	256	260
Gain on disposal of capital assets	(203)	(44)
Cash flow from operations	9,713	8,475
Increase in non-cash working capital	(1,569)	(1,705)
	8,144	6,770
Financing activities		
Issue of Class A Non-Voting shares	716	15
Dividends paid	(920)	-
Cancellation of stock options	-	(170)
	(204)	(155)
Cash available for investing	7,940	6,615
Investing activities		
Capital expenditures	(3,760)	(3,655)
Refundable dividend tax	163	(84)
	(3,597)	(3,739)
Increase in cash	4,343	2,876
Cash position, beginning of year	17,049	14,173
Cash position, end of year	$ 21,392	$ 17,049
Cash flow from operations per Class A and Class B share		
Basic	$ 1.05	$ 0.93
Fully diluted	$ 1.00	$ 0.88

NOTES TO FINANCIAL STATEMENTS

December 31, 1996

(tabular amounts in thousands of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition on contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Any anticipated loss is provided for in its entirety when the estimated loss is identified.

Depreciation

Drilling rigs are depreciated using the unit of production method based on the estimated life of each rig, in days, as determined by the Company.

Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum.

Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 10% to 25% per annum.

Investments

The Company records ownership of its investment in Western Rock Bit Company Limited, a private company, at cost. The Company also has an investment in a joint venture, AKITA Equtak Drilling Ltd. which it records using the proportionate method of consolidation. The joint venture was inactive during 1996 and 1995.

Financial Instruments

During 1996, the Company adopted new Canadian Institute of Chartered Accountants standards for the presentation and disclosure of financial instruments. Such adoption had no material effect on the financial statements.

2. CAPITAL ASSETS

	1996		1995	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Drilling rigs and related equipment	**$21,756**	**$7,143**	$18,088	$4,900
Other	**1,674**	**746**	1,452	515
	$23,430	**$7,889**	$19,540	$5,415
Net Book Value	**$15,541**		$14,125	

3. SHARE CAPITAL

Authorized

An unlimited number of Series Preferred Shares, issuable in series, designated as First Preferred Shares

An unlimited number of Series Preferred Shares, issuable in series, designated as Second Preferred Shares

An unlimited number of Class A Non-Voting Shares

An unlimited number of Class B Common Shares

Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
December 31, 1994	8,271,644	$16,708	832,977	$1,375	9,104,621	$18,083
Stock option plans	20,000	15	-	-	20,000	15
Conversions Class B to Class A	50	-	(50)	-	-	-
December 31, 1995	8,291,694	16,723	832,927	1,375	9,124,621	18,098
Stock option plans	344,000	716	-	-	344,000	716
Conversions Class B to Class A	2,025	3	(2,025)	(3)	-	-
December 31, 1996	**8,637,719**	**$17,442**	**830,902**	**$1,372**	**9,468,621**	**$18,814**

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

The Company has established a stock option plan for directors, officers, key employees and other persons providing services to the Company. At December 31, 1996, 260,000 options to acquire an equivalent number of Class A Non-Voting shares were outstanding. The options are exercisable cumulatively over periods of up to 10 years from the date of grant at prices ranging from $0.76 to $4.55 per share. These options expire at various dates to 2004.

Basic earnings per share and cash flow per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Fully diluted earnings per share and fully diluted cash flow per share have been calculated using the weighted average number of Class A Non-Voting and Class B Common shares that would have been outstanding had all of the stock options been exercised at the beginning of the year.

4. OTHER INCOME

	1996	1995
Interest	$ 1,040	$ 919
Dividends	430	251
Gain on sale of capital assets	203	44
	$ 1,673	$ 1,214

5. INCOME TAXES

The income tax provision differs from that which would be computed using the statutory rates. A reconciliation of the differences is as follows:

	1996	1995
Earnings before income taxes	$ 12,841	$ 11,200
Income tax at statutory rate of 45%	5,778	5,040
Add (Deduct):		
Dividend income	(163)	(113)
Other	113	220
Income tax provision	$ 5,728	$ 5,147

6. RELATED PARTY

The Company is affiliated to the ATCO Group of Companies through its majority shareholder. The accompanying table summarizes transactions and year end balances with those affiliates. These transactions were in the ordinary course of business and were considered to be at fair market value.

	1996	1995
Revenue	$ -	$ 250
Purchases		
Capital	322	498
Operating	116	141
Year end accounts receivable	-	-
Year end accounts payable	134	9

7. PENSION

The Company has a defined contribution Pension Plan which covers substantially all of its employees. Under the provisions of the Plan, the Company contributes 5% of regular earnings for eligible employees on a current basis.

8. FINANCIAL INSTRUMENTS

The Company's financial instruments as at December 31, 1996 included cash, accounts receivable, accounts payable and the investment in Western Rock Bit Company Limited. During the year, AKITA did not hold or issue any derivative financial instruments.

The credit risk associated with accounts receivable is considered to be low since substantially all counterparties are well established and financed oil and gas companies.

Due to the current nature of cash, accounts receivable and accounts payable, fair value of these items is considered to be equal to book value.

The Company's investment in Western Rock Bit Company Limited, a private company, is carried at cost. In the opinion of management, it is not practicable within the constraints of timeliness, cost, or the availability of a consistent resale market to determine the fair value of this financial asset with sufficient reliability, however, management believes that the fair value of the investment substantially exceeds the carrying amount. The investee's principal business is the distribution of rock bits and the manufacture and distribution of oilfield products.

9. COMMITMENT

The Company leases its office space at an annual cost of approximately $70,000 per year. Lease expiry will occur in 1999.

FINANCIAL REVIEW FROM THE COMMENCEMENT OF OPERATIONS

(Dollars in thousands, except per share)

	1996	1995	1994	1993
Summary of Operations				
Revenue	**$ 63,340**	$ 57,429	$ 61,498	$ 44,142
Earnings before income taxes	**$ 12,841**	$ 11,200	$ 12,401	$ 4,751
Income taxes	**$ 5,728**	$ 5,147	$ 5,377	$ 2,166
Net earnings	**$ 7,113**	$ 6,053	$ 7,024	$ 2,585
As a percentage of average shareholders' equity	**19.3%**	19.8%	29.1%	15.5%
Earnings per Class A and Class B share	**$ 0.77**	$ 0.66	$ 0.77	$ 0.32
Cash flow from operations	**$ 9,713**	$ 8,475	$ 9,184	$ 4,458
As a percentage of average shareholders' equity	**26.3%**	27.8%	38.1%	26.8%
Cash flow per Class A and Class B share	**$ 1.05**	$ 0.93	$ 1.01	$ 0.55
Financial position at year end				
Working capital	**$ 26,844**	$ 20,932	$ 16,351	$ 10,675
Current ratio	**3:47:1**	3:28:1	2:29:1	2:38:1
Total assets	**$ 53,603**	$ 44,610	$ 41,999	$ 29,937
Shareholders' equity	**$ 40,460**	$ 33,388	$ 27,574	$ 20,650
Per share	**$ 4.27**	$ 3.66	$ 3.03	$ 2.27
Other				
Capital expenditures	**$ 3,760**	$ 3,655	$ 3,408	$ 1,737
Depreciation	**$ 2,547**	$ 2,206	$ 1,986	$ 1,254

COPRPORATE INFORMATION

DIRECTORS

William L. Britton, Q.C.
Partner, Bennett Jones Verchere,
Deputy Chairman of the
Board of the Corporation,
Calgary, Alberta

Linda A. Heathcott
Executive Vice President,
Spruce Meadows,
Calgary, Alberta

John B. Hlavka
President of the Corporation,
Calgary, Alberta

Cameron S. Richardson
Senior Vice-President, Finance and
Chief Financial Officer, ATCO Ltd.
and Deputy Chairman of the Board
and Chief Financial Officer,
Canadian Utilities Limited,
Calgary, Alberta

Dale R. Richardson
Vice President, Sentgraf Enterprises Ltd.,
Calgary, Alberta

Margaret E. Southern, O.C., L.V.O., LL.D.
President, Spruce Meadows,
Calgary, Alberta

Nancy C. Southern
Deputy Chairman, ATCO Ltd. and
Canadian Utilities Limited,
Calgary, Alberta

Ronald D. Southern, C.M., C.B.E., LL.D.
Chairman of the Board and Chief
Executive Officer, ATCO Ltd., and Chairman
of the Board and Chief Executive Officer,
Canadian Utilities Limited, Chairman
of the Board of the Corporation,
Calgary, Alberta

C. Perry Spitznagel
Partner, Bennett Jones Verchere,
Calgary, Alberta

OFFICERS

John B. Hlavka
President

Robert J. Hunt
Vice President, Sales and Marketing

Murray J. Roth
Secretary-Treasurer

Karl A. Ruud
Vice President, Operations

HEAD OFFICE

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#1110, 505-3rd Street S.W.,
Calgary, Alberta T2P 3E6
(403) 292-7979

BANKER

Alberta Treasury Branches,
Calgary, Alberta

COUNSEL

Bennett Jones Verchere,
Calgary, Alberta

AUDITORS

Price Waterhouse,
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

R-M Trust Company
Calgary, Alberta and
Toronto, Ontario

SHARE SYMBOL/TSE

Class A Non-Voting (AKT.A)
Class B Common (AKT.B)